Interprovincial Pipe Line Limited

Annual Report 1982

The pipeline system

Diameter		Location	Length	
1 219 mm	*48 in*	Edmonton-Superior	531 km	*330 miles*
864	*34*	Edmonton-Chicago	2 515	*1 563*
762	*30*	Superior-Sarnia	1 032	*641*
		Chicago-Sarnia	638	*397*
		Sarnia-Montreal	832	*517*
660	*26*	Gretna-Superior	526	*327*
610	*24*	Edmonton-Gretna	1 242	*772*
		Edmonton-Regina	706	*439*
		Sarnia-Port Credit	475	*295*
508	*20*	Westover-Niagara River	113	*70*
457	*18*	Regina-Gretna	59	*37*
		Gretna-Superior	526	327
406	*16*	Regina-Gretna	639	*397*
		Nanticoke Line	42	*26*
324	*12*	Westover-Buffalo	148	*92*
		Norman Wells-Zama *(construction 1983-1985)*	866	*538*

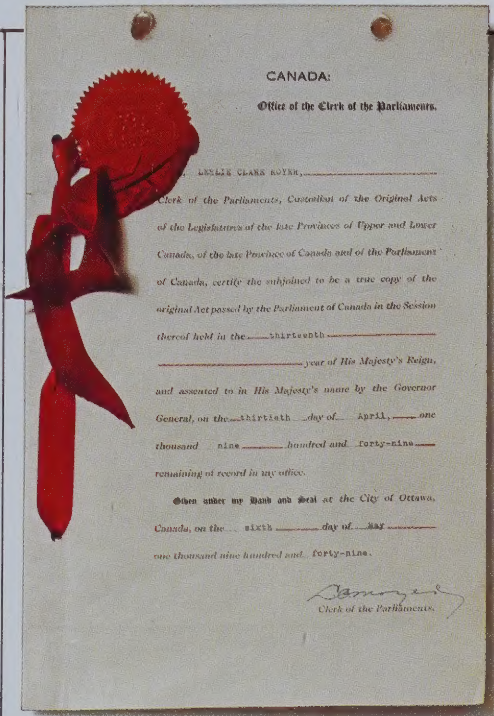
Interprovincial Pipe Line Limited was incorporated by an Act of the Parliament of Canada on April 30, 1949

"Whereas the persons hereinafter named have by their petition prayed that it be enacted as hereinafter set forth, and it is expedient to grant the prayer of the petition: Therefore His Majesty, by and with the advice and consent of the Senate and House of Commons of Canada, enacts as follows:—"

With these words Interprovincial Pipe Line Company (now Interprovincial Pipe Line Limited) was created on April 30, 1949 by Special Act of the Parliament of Canada. Throughout its first 33 years, Interprovincial has kept pace with the growth of the petroleum industry by providing economical transportation facilities and services for the movement of crude oil and other liquid hydrocarbons.

The exploration for oil in the Canadian west began in the 1920's with a moderate degree of success. Sufficient oil was discovered at Turner Valley, southwest of Calgary, and Norman Wells in the Northwest Territories to stimulate further activity. The major find that started Canada on an aggressive search for oil came in 1947 at Leduc, Alberta, followed a year later by discovery wells at Redwater, Alberta.

Initially, Interprovincial was designed to carry oil from Edmonton to Regina. Before construction started, however, more discoveries created the opportunity for a pipeline extending not just to Regina but further east to the shores of Lake Superior at Superior, Wisconsin. From there lake tankers transported the crude eastward to the large refineries in Ontario. Lakehead Pipe



CANADA:

Office of the Clerk of the Parliaments.

I, LESLIE CLARE BOYER, Clerk of the Parliaments, Custodian of the Original Acts of the Legislatures of the late Provinces of Upper and Lower Canada, of the late Province of Canada and of the Parliament of Canada, certify the subjoined to be a true copy of the original Act passed by the Parliament of Canada in the Session thereof held in the thirteenth year of His Majesty's Reign, and assented to in His Majesty's name by the Governor General, on the thirtieth day of April, one thousand nine hundred and forty-nine remaining of record in my office.

Given under my Hand and Seal at the City of Ottawa, Canada, on the sixth day of May one thousand nine hundred and forty-nine.

Clerk of the Parliaments.

Line Company, Inc. was formed to operate the pipeline system in the United States.

Commencing in the spring of 1950, the Edmonton-Superior line was built in an unprecedented 150 days. First, the right-of-way was staked and cleared. Large ditching machines then excavated a trench deep enough to bury the pipe which, when lowered, would leave sufficient cover for normal surface operations to continue safely. After the ditching, the pipe was welded into a continuous line. Before the pipe was lowered into the trench, it was wrapped with a protective coating to prevent corrosion. Finally, backfill and clean-up operations were completed. Concurrently, the working tankage and diesel-powered pumping stations were constructed at strategic locations along the line. Operations commenced in the fall of 1950 with oil arriving in Superior in early December.

The discoveries in Western Canada continued and markets expanded. By 1953 the seasonal shipping bottleneck on the Great Lakes made it evident that adequate servicing of Ontario and the northcentral U.S. required further pipeline expansion.

An extension from Superior, east to Sarnia, Ontario, was planned, designed, constructed, and began operating all in the year 1953. This feat was highlighted by an exceptional underwater crossing of the Straits of Mackinac at the junction of Lake Michigan and Lake Huron. To accomplish the deepest underwater crossing yet attempted, twin 20 inch lines were laid in separate trenches, joining on each shore a single larger line. This extension carried the crude oil from Superior to Sarnia thereby providing a regular supply to the refineries in southwestern Ontario.

1957 saw the completion of a line further east from Sarnia to Port Credit, near Toronto. A progressive plan of paralleling the upstream lines was implemented and additional pumping stations were constructed to move the increasing volume of crude from the west. By the end of 1958, two separate lines running from Edmonton to Superior provided greater flexibility in pumping schedules for shippers and refiners.

A short breathing space followed until, in 1962, a branch line was constructed from the hamlet of Westover, near Hamilton, around the south side of Lake Ontario to the City of Buffalo, some 90 miles to the east.

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1 Ditching machine at work
2 Coating and wrapping pipe
3 Initial shipment of pipe to Prairies
4 Official opening of pipeline in Edmonton, October 1950

The program for increasing capacity by paralleling or looping the line was continuous over the next ten years. A third line was built between Edmonton and Superior, and a second line from Sarnia to Toronto and from Westover to Buffalo. Expansion was implemented to handle the complex oil movement schedules and the requirements of additional markets. A highlight of this period occurred with the construction of an extension in 1968 from Superior to Griffith, Indiana, in the Chicago area, the first stage of completing a second main line to Sarnia. The second step followed a year later with the installation of a line from Griffith to Sarnia thereby completing the entire loop around Lake Michigan.

In 1972 the need for additional capacity between Edmonton and Superior resulted in extensive looping with 48 inch diameter pipe. This was the largest pipe ever laid for oil transmission in North America.

Another major expansion came in 1975 when a large diameter pipeline was built from Sarnia to Montreal. This project was the result of Federal Government policy to make crude from Western Canada available to Montreal refineries in order to significantly

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5 Early pipeline patrol aircraft
6 Preparing to pull pipe across Straits of Mackinac 1953
7 Overhead crossing of Chicago ship canal 1968
8 Route survey for Norman Wells pipeline 1982
9 Point of origin of Norman Wells pipeline

reduce the dependency on oil imports.

In the early years the measurement and control of oil movements through the pipeline was largely manual and the oil was moved by pumps operated by large diesel engines requiring continuous supervision. Commencing in the late 1960's, the system was gradually changed to control by computers programmed to handle the complexities of delivery and measurement. The diesel units were gradually replaced with electric motors, and remote operation of valves many miles away became routine. Now the system is totally computerized and controlled by operators in Edmonton, Superior and Sarnia.

Interprovincial's history of pipeline expansion promises to continue throughout the decade of the 1980's.

Oil discoveries in conventional and frontier areas provide new growth opportunities. Planning and implementation continues on projects that will ensure the importance of the company in the future. These projects include the modification of existing facilities for transporting a greater variety of liquid hydrocarbons.

Financial and statistical highlights

Financial	1982	1981	Increase (Decrease)
Transportation revenue	$ 358,604,000	$ 302,097,000	19%
Expenses, excluding taxes	211,587,000	195,554,000	8%
Income and other taxes	100,394,000	75,522,000	33%
Earnings	74,742,000	56,360,000	33%
per share	2.90	2.19	
Dividends	41,213,000	38,544,000	
per share	1.60	1.50	
Capital expenditures	10,686,000	40,282,000	
Funds provided from operations	129,403,000	105,041,000	

Statistical			
Deliveries (cubic metres per day)*			
By quarters			
First	189 927	221 307	
Second	176 659	190 307	
Third	198 790	190 221	
Fourth	198 172	194 777	
Yearly average	190 931	199 056	
Highest month	212 350	234 997	
Lowest month	150 658	172 520	
Cubic metres delivered	69 690 000	72 655 000	(4.1%)
Cubic metre kilometres (millions)	159 739	163 757	(2.5%)

**1 cubic metre = 6.3 barrels*

Common stock trading and dividends

	High	Low	Dividends paid	High	Low	Dividends paid
First Quarter	$15½	$13½	$ .375	$16½	$14⅜	$ .350
Second Quarter	17½	15¼	.375	16¾	14¾	.350
Third Quarter	20⅛	16	.375	15½	12¾	.350
Fourth Quarter	24½	19⅞	.475	15⅝	13¼	.450
			$1.60			$1.50

Directors' report to shareholders

Earnings for 1982 reached a record high of $75 million or $2.90 per share, an increase of 33% over 1981 earnings of $56 million or $2.19 per share. Although there was a 4% decline in the volume of oil moved through the pipeline system, improved earnings were achieved from higher tariffs on total deliveries of 191 000 cubic metres per day (m^3/d) and a favourable exchange rate in translating profits from U.S. operations.

The company's tariffs established for the year were based on throughput levels as forecast early in 1982. However, deliveries in the second half increased 8% over the first half of the year because of policy changes implemented by the Canadian Government to increase the production of western Canadian crude oil. The regulations for importation of crude oil into Eastern Canada were revised following a decline in the market for petroleum products which caused substantial shut-in crude production in Western Canada. This new policy subsidizes the transportation of Canadian crude oil delivered by tanker from Montreal to Atlantic refineries. As a result the Montreal Extension operated at close to capacity during the last half of the year. Other policy changes included incentives to encourage exports of surplus heavy oil to the U.S.

The total demand for petroleum products in markets served by the pipeline system continued the declining trend experienced over the past several years and resulted in several refinery closures. In July 1982 the Ashland refinery in Buffalo ceased operations and the Montreal East refinery of Texaco was idled in the fall. This rationalization of refining capacity will continue in 1983 with the announced closures of the BP refinery in Montreal and the Shell refinery at Oakville scheduled for mid-year. Recently, Shell announced the closure in 1983 of its small refinery at St. Boniface, Manitoba. It is intended that an offsetting volume of refined products from the Edmonton refining centre will be transported through the Interprovincial system to Manitoba. The consolidation of refining capacities will result in more efficient use of the remaining refineries and should not materially affect total deliveries by Interprovincial.

The long awaited decision by the Federal Energy Regulatory Commission in the Williams Pipe Line rate case was finally released on November 30, 1982. FERC's findings have established the basic principles for future regulation of oil pipelines in the U.S. and, as explained later in this report, the decision is considered to be generally favourable to the company.

Interprovincial continues to actively pursue new investment opportunities particularly in the pipeline field. As will be reported more fully, plans for our major project, the Norman Wells pipeline, are proceeding on schedule and within budget. Pipeline construction is expected to commence later this year.

The other significant 1983 project will be the construction of a new crude oil pipeline in southwestern Wyoming. The company has become a 35% partner in Frontier Pipeline Company along with subsidiaries of Amoco, Anschutz and Union Pacific in a 467 kilometre 406 mm crude line to be built connecting the Overthrust Belt producing area to Casper, Wyoming where the line will connect with existing pipelines. The project, budgeted at $110 million U.S., should be completed later this year.

The downturn in the economy has caused a setback in oil industry interest in the production of new supplies of propane and butane. However, Interprovincial is in an excellent position to participate in the transportation of these additional specialty products to eastern markets when the demand occurs.

In a slightly different direction, the company has recently submitted a proposal to construct and operate a large diameter water pipeline to supply the Saskatchewan cities of Moose Jaw and Regina.

In its development of a long term strategic plan for future investment activities, the company intends to assess opportunities which may arise within the energy sector in addition to continuing to pursue investments in the pipeline area.

During this period of economic constraint the company has indicated its commitment to comply with the Government of Canada's compensation restraint program. Wage settlements and salary programs for 1983 have been established within this "6 and 5" framework.

Norman Wells Pipeline Project

The company's wholly-owned subsidiary, Interprovincial Pipe Line (NW) Ltd., will own and operate an oil pipeline extending 866 kilometres south from the Norman Wells oilfield in the Northwest Territories to the Zama terminal of the Rainbow Pipe Line in northwestern Alberta. This line will transport increased crude oil production resulting from an expansion of the Norman Wells field currently being undertaken by Esso Resources Canada Limited.

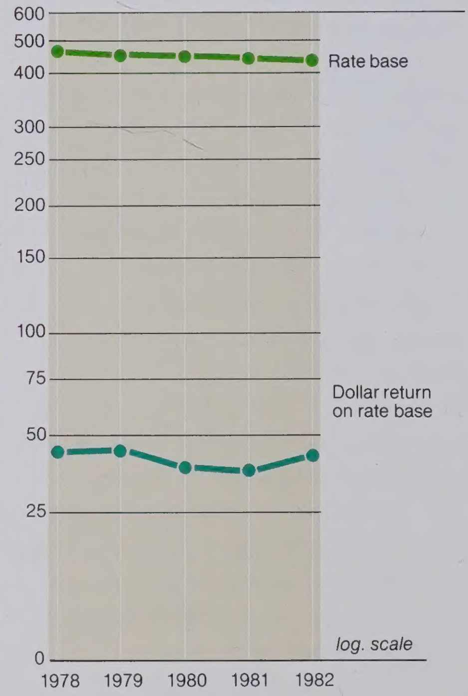
Initial capacity of the 324 mm diameter pipeline is 4 700 m^3/d. Although the line is of "small diameter" when compared to others operated by Interprovincial, its length and location present some interesting challenges. Since the line crosses areas of intermittent permafrost as well as muskeg, the use of heavy pipe laying equipment will be restricted to 90 day construction periods during the winters of 1983-84 and 1984-85 when firmly frozen ground can be assured. Start up of the line is scheduled for the summer of 1985.

Significant progress was made during 1982 towards satisfying many of the terms and conditions of the Certificate of Public Convenience and Necessity issued by the National Energy Board in November 1981. Approval of route plans, agreements with government agencies for use of right-of-way, land use permits for offsite development and approval of water crossings have or are being obtained.

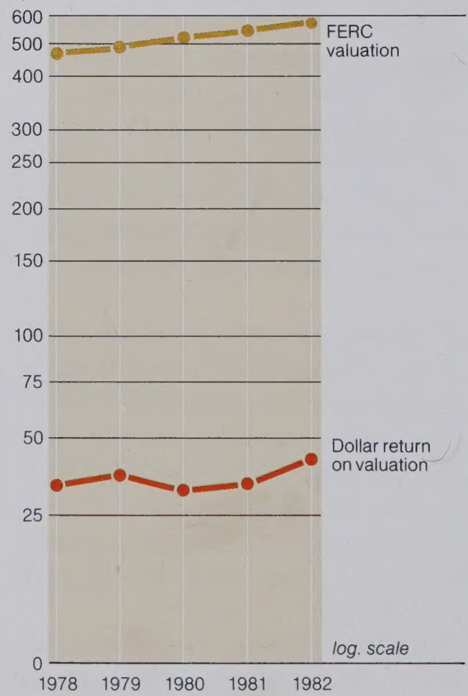
To enable northern residents to benefit from the project wherever possible, the company's socio-economic program has identified some $60 million of business potential in the NWT related to the construction phase. Some $10 million of this amount is earmarked for contracts at the community level. In early 1983, about 200 northerners were employed clearing right-of-way along the route. Restoration and reseeding of the right-of-way, preparation of access roads, stock-piling and pumping station sites, as well as general trucking opportunities will also be made available to northern residents.

The estimated cost of the Norman Wells project is $576 million. By year end, expenditures of $21 million had been incurred with an additional $115 million forecast for 1983.

Interprovincial rate base and return
(in millions of dollars)



Lakehead rate base and return
(in millions of dollars U.S.)



Rate Regulation

As a result of revised estimates of throughput and expenses for 1982, the company filed new tolls with the NEB for the Canadian system which became effective on April 29, 1982. These tolls reflected a 6.2% increase in average tariffs and resulted in raising the company's actual return on rate base for the first time since 1979. The rate base is the net book value of the pipeline transportation system in Canada.

In November 1982, FERC announced its policy on the regulation of oil pipelines in the U.S. In an opinion centering on the Williams Pipe Line Company's rates, the Commission set industry standards for testing the propriety of oil pipeline rates.

Of primary importance to Lakehead, the rate investigation initiated by

FERC in 1979 and the potential refund obligations related to 1980-82 tariff increases of Lakehead were dismissed.

The Commission stated that it would continue to use the "fair value" rate base which is essentially a weighted average of reproduction cost and original cost. Allowed rates of return would not follow the traditional tests but would be set on a case-by-case basis.

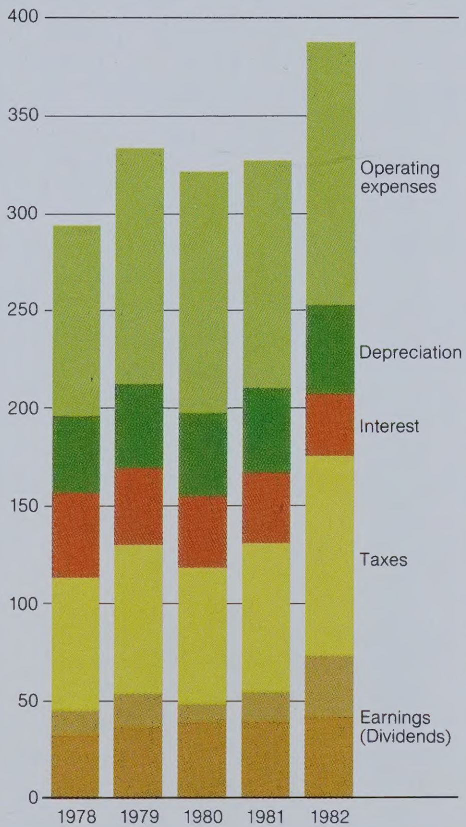
The Commission emphasized that oil pipeline rate regulation is not a consumer protection measure and that the consumer's stake in the outcome is negligible. Therefore, it urged Congress to "take a fresh and hard look at oil pipeline rate regulation". Legislation to deregulate oil pipeline rates in the U.S. has been before Congress for the past year and with the added support of the Commission it is anticipated that legislative action may be expedited towards that objective.

A rate increase of 10.8% by Lakehead became effective on December 1, 1982 to reflect forecast throughput and operating costs for the year 1983.

Financial Review

Earnings for the year increased from \$56 million or \$2.19 per share in 1981 to \$75 million or \$2.90 per share in 1982. The contribution to earnings from the company's U.S. operations increased from \$33 million to \$46 million and Canadian operations increased from \$23 million to \$29 million. This was due primarily to

Distribution of revenue
(in millions of dollars)



higher U.S. and Canadian transportation charges in effect throughout the year and a higher average U.S. exchange rate.

Consolidated transportation revenue increased from \$302 million in 1981 to \$359 million in 1982. Total expenses, including interest, increased from \$215 million to \$232 million. Electric power costs of \$66 million continue to be the dominant operating expense. Operating and administrative expenses include salaries, wages and benefits of \$37 million, main line and equipment repairs, oil losses, rents, supplies and other services. Property and other taxes paid to municipal and other local governments amounted to \$21 million.

The annual dividend rate was increased from \$1.50 to \$1.60 when the regular quarterly dividend was raised to 40¢ per share effective December 1, 1982. An extra dividend of 7½¢ per share was also paid at that time. The new quarterly rate of 40¢ per share will be continued in 1983 but the company does not intend to pay extra dividends in the final quarter of the year as has been the practice in previous years.

The returns on average capital employed and average shareholders' equity were 11.6% and 26.3% respectively, up significantly from 1981. Shareholders' equity increased from \$267 million to \$301 million. At year end this amounted to a book value of \$12 per share. The ratio of long term debt to long term debt plus equity has been reduced over the last five years from 67% to 53%. Similarly, earnings coverage of interest has improved from 3.3 times to 5.6 times over the same period. As a result, the company's financial condition has strengthened substantially.

Net Internal Cash Generated

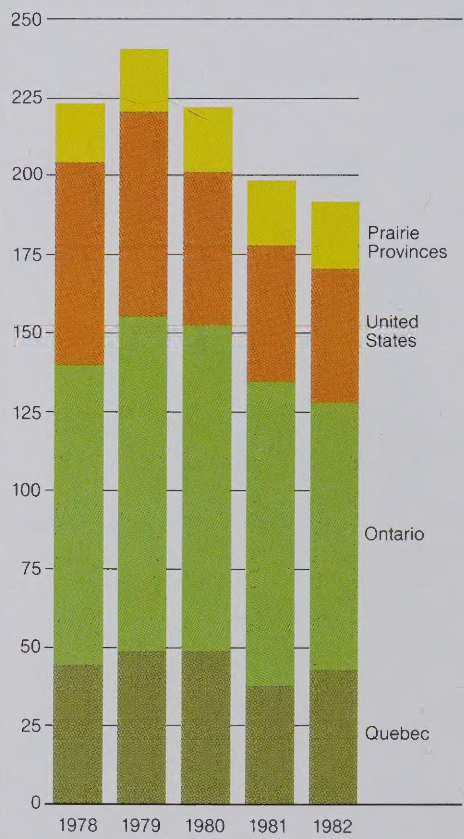
(thousands of dollars)	1982	1981
Internal cash generated from:		
Operations	**\$129,403**	\$105,041
(Increase) decrease in non-cash working capital	**9,766**	(5,244)
	\$139,169	\$ 99,797
Required for reduction of long term debt and dividends	**67,484**	59,666
Net internal cash generated	**\$ 71,685**	\$ 40,131

Net internal cash generated and available for capital investment was $72 million in 1982 compared to $40 million in 1981. During the year, capital expenditures for the pipeline transportation system totalled $11 million, project costs of the Norman Wells pipeline were $9 million and the acquisition cost of U.S. tax benefits amounted to $13 million. The balance of $39 million was added to cash and short term investments.

With respect to the purchased tax benefits, the company entered into an agreement with Global Marine, Inc. whereby tax deferrals of approximately $13 million U.S. in excess of the acqusition cost will be realized over the next five years by the company's U.S. subsidiary.

In 1983 the company intends to commence construction of the Norman Wells pipeline. This project is to be financed on a 75/25 debt to equity basis under an agreement with Imperial Oil who have undertaken to support the required debt financing whereas the company will provide the equity funds. To facilitate this financing, Interprovincial is currently seeking to amend its existing trust indenture to permit debt financing for Norman Wells without reducing future debt-raising capacity. If these amendments are approved at a meeting of debentureholders, the company has agreed to increase the interest rate on all outstanding debentures of Interprovincial by one-half of 1% per annum. In advance of permanent long term financing being arranged, the company has entered into a credit agreement with a major Canadian chartered bank which will provide the funds necessary to complete construction.

Deliveries
Cubic metres per day (thousands)



Operations

Total deliveries of 191 000 m³/d in 1982 were down 4% from a year earlier. Significant changes in Federal Government energy policies increased the domestic and export market for Canadian light and heavy crude oil and prevented a larger decline in deliveries.

Although deliveries in the U.S. of 42 000 m³/d declined 4% during the year, Canadian crude oil exports to this market rose by 35%. This increase was largely offset by reduced deliveries of U.S. and offshore crude oil.

Mainly as a result of reduced demand for petroleum products, deliveries to Ontario decreased 12% to 85 000 m³/d. On the other hand, Quebec deliveries increased 15% to 43 000 m³/d. This increase was attributable to Federal Government incentives that improved the market for Canadian light crude oil in Quebec and the Maritimes.

Receipts—by location

(thousands of cubic metres per day)	1982	1981
Alberta	141.2	141.9
Saskatchewan	22.5	19.9
Manitoba	1.7	1.6
Ontario	.7	.3
United States	25.4	34.9
	191.5	198.6

Deliveries—by type

(thousands of cubic metres per day)	1982	1981
Crude Oil		
Light	116.5	127.6
Medium and heavy	35.0	32.2
Oil sands	13.3	12.7
Natural Gas Liquids		
Condensate	7.6	7.7
Propane/butane mix	10.5	10.0
Refined Products	8.0	8.9
	190.9	199.1

Tariffs

The NEB in Canada regulates tariffs charged by Interprovincial for the transportation of crude oil, natural gas liquids and refined petroleum products. In the U.S., Lakehead's rates are subject to approval by the FERC.

As a result of general rate increases filed in 1982, combined Interprovincial

and Lakehead rates for representative shipments from Edmonton are:

Destination	Rates for light crude per cubic metre
Regina	$1.54
Clearbrook	3.36
Superior	3.99
Chicago	5.27
Sarnia	5.74
Toronto	6.17
Buffalo	6.37
Montreal	7.26

The rates for heavier crude, natural gas liquids and refined petroleum products are slightly higher.

Capital Expenditures

1982 review

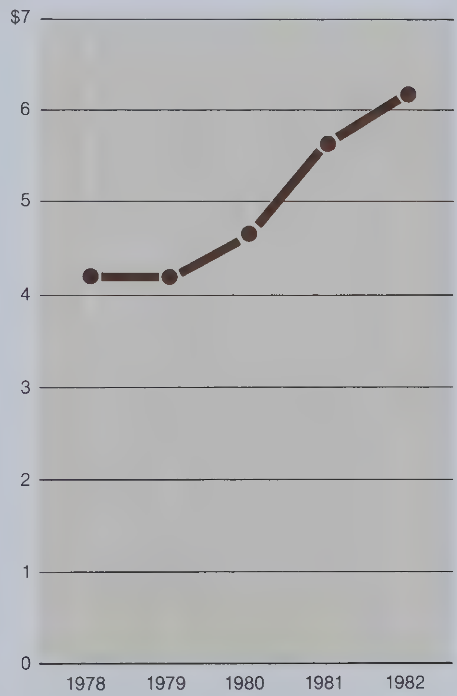
Expenditures on the existing system in 1982 totalled $11 million for replacement of pipeline control equipment and modification of a number of existing storage tanks to conform with new environmental regulations.

1983 forecast

Capital expenditures for 1983 are estimated at $30 million including $7 million to complete projects begun in 1982.

The company has applied to the NEB for approval to convert one of the existing 508 mm pipelines between Sarnia and the Hamilton area from crude oil to propane service. This is an opportunity to provide a transportation facility that will reduce the overall delivered cost of propane in central Ontario. It will also provide additional revenue as propane is presently being moved by surface transport. Assuming NEB approval is received early in 1983, conversion of the existing pipeline at an estimated cost of $7 million will proceed immediately with the facility available for operation in the first quarter of 1984.

Tariffs – Edmonton to Toronto
Dollars per cubic metre



Other projects include the first stage of upgrading the existing pipeline control system to provide an improved, more efficient operation and the modification of station oil lines at certain pumping stations in Western Canada.

General

During the year two changes took place on the Board of Directors of the company. Mr. R. T. Brown, President, Gulf Canada Products Company, and Mr. G. H. Thomson, President, Esso Petroleum Canada, were elected to the Board following the retirement of Mr. W. H. Griffin and the resignation of Mr. W. A. West.

The company's 33 years of growth and progress can be attributed in no small measure to the competence, dedication and experience of all employees. The directors and management wish to acknowledge and express appreciation for their efforts.

R. K. Heule

R. K. Heule, President
& Chief Executive Officer

Interprovincial Pipe Line Limited

and subsidiary companies

Consolidated statement of earnings

For the year ended December 31, 1982, with comparable figures for 1981

Figures stated in thousands of dollars except per share amounts

	1982	1981
Income:		
Transportation revenue	$358,604	$302,097
Montreal Extension Deficiency Agreement (Note 2)	7,410	7,747
Other income	20,709	17,592
	386,723	327,436
Expenses:		
Power	65,512	63,033
Operating and administrative	68,494	54,625
Property and other taxes	20,507	19,055
Provision for depreciation and amortization	44,050	42,959
Interest on long term debt	33,531	34,937
	232,094	214,609
Earnings before income taxes	154,629	112,827
Provision for income taxes:		
Current	67,997	49,994
Deferred	6,920	6,247
Deferred investment tax credits	4,970	226
	79,887	56,467
Earnings for the year	$ 74,742	$ 56,360
Earnings per share	$ 2.90	$ 2.19

Consolidated statement of retained earnings

For the year ended December 31, 1982, with comparable figures for 1981

Figures stated in thousands of dollars except per share amounts

	1982	1981
Balance at beginning of year	$216,067	$198,251
Earnings for the year	74,742	56,360
	290,809	254,611
Dividends—(per share: 1982—$1.60; 1981—$1.50)	41,213	38,544
Balance at end of year	$249,596	$216,067

Consolidated statement of changes in financial position

For the year ended December 31, 1982, with comparable figures for 1981

Figures stated in thousands of dollars

	1982	1981
Source of Funds:		
Earnings for the year	$ 74,742	$ 56,360
Charges (credits) to earnings not affecting working capital:		
Depreciation and amortization	44,050	42,959
Deferred income taxes	6,920	6,247
Deferred investment tax credits	4,970	226
Other	(1,279)	(751)
Provided from operations	129,403	105,041
Capital stock issued	1,028	900
	130,431	105,941
Use of Funds:		
Dividends	41,213	38,544
Additions to pipeline transportation system	10,686	40,282
Long term debt retired or included in current liabilities	26,271	21,122
Purchased tax benefits	13,031	
Norman Wells project	8,948	6,741
Other transactions	50	2,313
	100,199	109,002
Change in Working Capital	30,232	(3,061)
Working Capital at beginning of year	51,613	54,674
Working Capital at end of year	$ 81,845	$ 51,613

Interprovincial Pipe Line Limited

and subsidiary companies

Consolidated balance sheet

As at December 31, 1982, with comparable figures for 1981

Figures stated in thousands of dollars

	1982	1981
Assets		
Current Assets:		
Cash, including bank term deposits	$ 81,348	$ 30,068
Short term investments, at lower of cost and market	24,689	35,971
Accounts receivable—		
Transportation charges	27,054	23,731
Other	7,839	2,739
Materials and supplies, at cost	3,427	3,793
Prepaid expenses	502	298
	144,859	96,600
Deferred Charges and Other Assets (Note 3)	39,543	20,542
Pipeline Transportation System, at cost (Note 4)	1,178,649	1,178,729
Less—Accumulated depreciation and amortization	505,647	472,845
	673,002	705,884
	$ 857,404	$ 823,026

The financial statements have been approved by the Board:

R. K. Heule
Director

R. C. Gimlin
Director

	1982	1981
Liabilities		
Current Liabilities:		
Accounts payable	$ 18,997	$ 18,432
Interest accrued	9,011	9,458
Income and other taxes	25,202	11,838
Current portion of long term debt	9,804	5,259
	63,014	44,987
Long Term Debt (Note 5)	332,592	358,863
Deferred Income Taxes	144,092	140,997
Deferred Investment Tax Credits	16,573	11,603
Shareholders' Equity		
Capital Stock (Note 6)	28,270	27,242
Contributed Surplus	23,267	23,267
Retained Earnings	249,596	216,067
	301,133	266,576
	$857,404	$823,026

See accompanying notes to the consolidated financial statements

Auditors' Report

To the Shareholders of
Interprovincial Pipe Line Limited:

We have examined the consolidated balance sheet of Interprovincial Pipe Line Limited as at December 31, 1982 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1982 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Edmonton, Alberta
February 2, 1983

Price Waterhouse
Chartered Accountants

Interprovincial Pipe Line Limited

and subsidiary companies

Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies:

The consolidated financial statements are prepared in accordance with accounting principles generally accepted in Canada and conform in all material respects with International Accounting Standards.

Principles of consolidation

The consolidated financial statements include the accounts of Interprovincial Pipe Line Limited and its wholly-owned subsidiaries, Interprovincial Pipe Line (NW) Ltd. in Canada and Lakehead Pipe Line Company, Inc. and its subsidiaries Pipe Line Service Company, Inc. and LPL Investments, Inc., in the United States.

Regulation

Interprovincial and Lakehead own and operate a pipeline system for the transportation of crude oil and other liquid hydrocarbons.

Construction, operations, accounting and rates in Canada are under the regulatory authority of the National Energy Board. Rates, accounting and other practices in the United States are under the regulatory authority of the Federal Energy Regulatory Commission. The companies follow the accounting policies prescribed or authorized by these authorities.

Translation of United States funds

United States dollar amounts have been translated into Canadian dollars on the following bases:

Current assets and liabilities—
at the rate of exchange December 31;

Other assets and liabilities—
at historical rates of exchange except for accumulated depreciation which is translated on the basis of equivalent Canadian dollar cost of the related fixed assets;

Income and expenses—
at monthly rates of exchange except provision for depreciation which is translated on the same basis as the related fixed assets.

Gains and losses arising from the foregoing methods are included in the Consolidated Statement of Earnings.

Discount and expense on long term debt

The balance of unamortized discount and expense is being amortized on the straight-line method over the life of the debt with adjustments as debt is retired. Amortization charged to earnings amounted to $421,000 in 1982 and $484,000 in 1981.

Pipeline transportation system, depreciation and amortization

Expenditures for system expansion and major renewals and betterments are capitalized whereas maintenance and repair costs are charged to operating expenses as incurred.

The Canadian companies follow the accounting practice of capitalizing, at rates authorized by the National Energy Board, an allowance for funds required to finance construction in Canada. This practice resulted in $2,695,000 and $2,335,000 being capitalized by these companies in the years 1982 and 1981 respectively.

Lakehead complies with the Financial Accounting Standards statement Capitalization of Interest Cost. In the years 1982 and 1981, interest costs incurred of $49,000 and $236,000 respectively were capitalized as part of the cost of newly constructed facilities.

The companies provide for depreciation of fixed assets, excluding the Montreal Extension and Assets Specially Classified, on the straight-line method at rates that average approximately 3%.

In accordance with terms of the Deficiency Agreement with the Canadian Government (Note 2), Interprovincial is providing for depreciation of all Montreal Extension depreciable facilities on a 20-year straight-line basis.

The National Energy Board determined that certain facilities are not fully utilized and has ordered that the undepreciated cost of these Assets Specially Classified should be amortized over a period of five years ending June 30, 1983.

When fixed assets are retired or otherwise disposed of, the cost less net salvage is charged to accumulated depreciation, except for unusual disposals for which the profit or loss is included in earnings as directed by regulatory authorities.

Deferred income and withholding taxes

The companies follow the tax allocation basis of accounting. Under income tax regulations, depreciation and other costs deducted for tax purposes may differ from the amounts recorded in the accounts (see also Note 3). The companies claim deductions permitted for tax purposes which results in maximum benefits and deferral of taxes to years when amounts deductible are less than the depreciation recorded in the accounts.

Earnings of Lakehead are subject to a 15% U.S. withholding tax when paid as dividends to Interprovincial. It has not been considered necessary to provide for this tax on retained earnings of $74,973,000 U.S. of Lakehead at December 31, 1982 because they have been reinvested in that company.

Deferred investment tax credits

The United States subsidiary companies are allowed credits against income taxes payable of a specified percentage of the cost of most depreciable assets acquired and placed into service (see also Note 3). These credits have been deferred and are being taken into earnings over the life of the related assets.

Earnings per share

Earnings per share are computed on the weighted average number of shares outstanding during the year. There would be no material dilution of earnings per share if the outstanding stock options had been exercised during the year.

2. Montreal Extension Deficiency Agreement:

Interprovincial and the Canadian Government are parties to a Deficiency Agreement whereby the Government will pay the deficiency if operating revenue in respect of the Extension is not sufficient to meet the fixed and variable costs of the Extension. Under the Agreement the Government has an option to purchase the Extension at its capital cost less depreciation, plus related expenses.

Tariffs prescribed by the National Energy Board in respect of the Montreal Extension do not produce sufficient operating revenue to meet the fixed and variable costs of the Extension and have resulted in deficiencies of $7,410,000 and $7,747,000 in the years 1982 and 1981 respectively.

3. Deferred Charges and Other Assets:

Deferred Charges and Other Assets at December 31 were as follows:

(in thousands of dollars)	1982	1981
Norman Wells pipeline project	$21,389	$10,148
Unamortized discount and expense on long term debt	3,058	3,479
Equity in IPL office building	2,578	2,665
Purchased tax benefits	9,256	
Other	3,262	4,250
	$39,543	$20,542

Norman Wells pipeline project

The National Energy Board has issued a Certificate of Public Convenience and Necessity to Interprovincial Pipe Line (NW) Ltd., authorizing construction of a 324 mm diameter pipeline 866 km in length from Norman Wells in the Northwest Territories to Zama in northwestern Alberta. Construction is scheduled to commence in 1983 with completion by mid-1985. The pipeline is designed to transport crude oil and other liquid hydrocarbons from expanded production facilities at Norman Wells. Interprovincial Pipe Line (NW) Ltd. will finance the project, currently estimated to cost $576,000,000, on the basis of 75% debt and 25% equity. The Norman Wells Pipe Line Agreement entered into with Imperial Oil Limited provides the financial support to the project.

Purchased tax benefits

United States tax legislation pemitted the transfer of tax benefits (investment tax credits and accelerated depreciation deductions) from one entity to another through transactions structured as leases for tax purposes. LPL Investments, Inc. entered into such a transaction in 1982. The purchased tax benefits are expected to be realized through the deferral of taxes during the first five years of the eleven year life of the lease. Acquisition costs of purchased tax benefits will be amortized over the term of the lease.

4. Pipeline Transportation System: Accumulated Depreciation and Amortization:

The pipeline transportation system and accumulated depreciation and amortization by major classes were as follows:

(in thousands of dollars)	Investment, at cost	Accumulated depreciation & amortization	Net investment December 31	
	December 31, 1982		1982	1981
Land	$ 3,862		$ 3,862	$ 3,124
Rights-of-way	14,956	$ 7,112	7,844	8,236
Pipeline	599,687	300,445	299,242	315,422
Pumping equipment, buildings and tanks	282,833	91,864	190,969	182,219
Montreal Extension	249,441	81,775	167,666	179,967
Assets specially classified	26,001	24,451	1,550	4,449
Construction in progress	1,869		1,869	12,467
	$1,178,649	$505,647	$673,002	$705,884

5. Long Term Debt:

Long Term Debt (excluding current portion) outstanding at December 31 was as follows:

(in thousands of dollars)	1982	1981
Interprovincial Pipe Line Limited		
First Mortgage and Collateral Trust Bonds—		
Series E—5½% due April 1, 1985	$ 3,280	$ 4,030
Less: Deposits with bondholders' Trustee for sinking fund payments	3,280	
		4,030
Sinking Fund Debentures (unsecured)—		
Series A—6% due November 1, 1986	15,400	15,986
B—9⅜% due December 1, 1990	38,400	40,800
C—8⅛% due May 1, 1993	36,000	38,000
D—10⅜% due July 15, 1996	65,000	70,000
E—10⅞% due February 1, 1996	64,985	69,845
F—9⅝% due May 1, 1996	34,540	37,200
Lakehead Pipe Line Company, Inc.		
Sinking Fund Debentures (guaranteed by Interprovincial)—		
Series A—6½% due August 1, 1992 (1982—$10,588 U.S.; 1981—$10,593 U.S.)	11,399	11,404
B—7⅛% due April 15, 1993 (1982—$40,717 U.S.; 1981—$44,557 U.S.)	43,841	47,976
C—7.60% due June 15, 1997 (1982—$23,400 U.S.; 1981—$24,005 U.S.)	23,027	23,622
	$332,592	$358,863

During the year, Interprovincial deposited with the Trustee all principal and interest owing on the First Mortgage and Collateral Trust Bonds. As a result, the Trustee discharged its interest in the mortgaged property and released the company from all liens and obligations under the Trust Deed.

Principal repayments required on Long Term Debt for the years ended December 31, 1984 through 1987 are $23,856,000, $24,606,000, $36,224,000 and $24,982,000 respectively.

Long Term Debt payable in U.S. currency translated at historical rates of exchange amounts to $78,267,000 and if translated at the December 31, 1982 rate of exchange would be $91,842,000 (1981—$83,002,000 and $93,870,000).

6. Capital Stock:

Interprovincial is authorized to issue an unlimited number of common shares and preferred shares, each without nominal or par value. At December 31, 1982 and 1981 there were 25,794,742 and 25,733,653 common shares outstanding. During 1982, 54,089 shares with an aggregate cash value of $925,000 were issued from treasury as stock dividends. No preference shares have been issued.

Under the Employee Incentive Stock Option Plan, options have been granted to full-time employees to purchase shares of capital stock at not less than 90% of the market value of the shares on the day that the options were granted. No further options may be granted under the Plan. During 1982 options for 7,000 shares were exercised for a total cash consideration of $103,000. At December 31, 1982 options were outstanding on 43,500 shares at a price of $14.75 per share exercisable until December 1988.

7. Pension Plans:

Interprovincial and Lakehead have pension plans which cover substantially all employees. The principal amount of the unfunded liability for past service benefits, including experience deficiencies, was approximately $10,775,000 at December 31, 1981, the date of the last actuarial valuation. This amount, together with interest, will be charged to earnings in varying annual installments to 1996. The companies fund accrued pension costs. For the years ended December 31, 1982 and 1981 total costs of the plans amounted to $3,521,000 and $2,889,000 respectively, of which $1,247,000 and $889,000 were applicable to past service benefits. At December 31, 1981 pension fund assets exceeded the actuarially computed value of the vested portion of the benefits.

8. Frontier Pipeline Project:

In 1982 Lakehead through its wholly-owned subsidiary LPL Investments, Inc. became a 35% partner in Frontier Pipeline Company. Frontier will construct a 406 mm diameter crude oil pipeline 467 km in length from the Overthrust Belt area in northeast Utah and southwest Wyoming to Casper, Wyoming. The initial capacity of the pipeline will be 13 000 cubic metres per day. The cost of the project, when completed in late 1983, is estimated to be $110,000,000 U.S. On January 7, 1983, Interprovincial signed a cash deficiency agreement and is committed to support, to the extent of LPL Investments, Inc.'s partnership interest, the financial obligations of the project.

9. Related Party Transactions:

At December 31, 1982 Imperial Oil Limited owned 33.3% of the outstanding capital stock of Interprovincial. During the years ended December 31, 1982 and 1981 shipments through the pipeline system by Imperial Oil under published pipeline tariff terms accounted for approximately 13% of consolidated transportation revenue. At year end 1982 and 1981 transportation revenue receivable from Imperial Oil amounted to $2,499,000 and $2,440,000 respectively.

10. Segmented Information:

Information by Geographic Segments

The companies are engaged in the business of transporting crude oil and other liquid hydrocarbons through a common carrier pipeline system in Canada and the United States.

	1982			1981		
	Transportation Revenue	Contribution to Net Income	Assets	Transportation Revenue	Contribution to Net Income	Assets
	(in thousands of dollars)					
Canada	$162,180	$29,108	$542,551	$142,336	$23,178	$515,324
United States	196,424	45,634	314,853	159,761	33,182	307,702
	$358,604	$74,742	$857,404	$302,097	$56,360	$823,026

Interprovincial Pipe Line Limited
Lakehead Pipe Line Company Inc.

The Pipeline Transportation System
as at December 31, 1982

		Canada	United States	Total
Right-of-way	km	2 280	2 799	5 079
Installed pipe	km	5 843	4 194	10 037
Pumping stations		33	50	83
Installed power	kw	395 212	326 393	721 605
Line fill *(provided by shippers)*	m^3	2 175 000	1 915 000	4 090 000

Pipeline Capacity

Line section	1983 m^3/d
Edmonton-Regina	240 000
Regina-Superior	230 000
Superior-Sarnia via Straits of Mackinac	88 000
Superior-Sarnia via Chicago	117 000
Sarnia-Toronto	74 000
Sarnia-Montreal	54 000
Westover-Buffalo	25 000

Interprovincial Pipe Line Limited

and subsidiary companies

Five year review

Financial

Figures stated in thousands of dollars except per share amounts	1982	1981	1980	1979	1978
Operations:					
Income —Transportation revenue	$358,604	$302,097	$302,028	$315,176	$269,989
—Deficiency Agreement	7,410	7,747	6,760	5,320	16,766
—Other income	20,709	17,592	12,270	10,323	7,723
Expenses—Power	65,512	63,033	75,044	74,020	56,428
—Operating and administrative	68,494	54,625	47,614	44,806	39,658
—Property and other taxes	20,507	19,055	18,169	16,975	16,913
—Depreciation and amortization	44,050	42,959	42,091	40,992	39,580
—Interest	33,531	34,937	37,275	40,175	43,242
Income taxes	79,887	56,467	52,161	58,339	51,847
Earnings	74,742	56,360	48,704	55,512	46,810
Dividends	41,213	38,544	38,459	37,744	34,524
Funds provided from operations	129,403	105,041	93,546	101,287	93,258
Net internal cash generated	71,685	40,131	36,723	47,564	14,197
Per Share:					
Earnings	2.90	2.19	1.90	2.17	1.83
Dividends	1.60	1.50	1.50	1.475	1.35
Dividend payout	55%	68%	79%	68%	74%
Assets:					
Working capital	81,845	51,613	54,674	56,626	52,354
Pipeline transportation system, at cost less accumulated depreciation and amortization	673,002	705,884	708,311	720,832	730,651
Additions to pipeline transportation system	10,686	40,282	31,459	29,133	9,413
Capitalization:					
Long term debt	332,592	358,863	379,985	404,698	435,398
Deferred taxes	160,665	152,600	146,127	143,792	139,734
Shareholders' equity	301,133	266,576	247,860	236,695	218,113
Total capital employed	794,390	778,039	773,972	785,185	793,245
Ratios:					
Long term debt to long term debt plus equity	52.5%	57.4%	60.5%	63.1%	66.6%
Earnings coverage of interest	5.6x	4.2x	3.7x	3.8x	3.3x
Return on average capital employed	11.6%	9.5%	8.6%	9.6%	8.5%
Return on average shareholders' equity	26.3%	21.9%	20.1%	24.4%	22.1%

Statistical

	1982	1981	1980	1979	1978
Shares outstanding at year end (thousands)	**25,795**	25,734	25,673	25,620	25,573
Percentage of shares registered in Canada	**96%**	96%	95%	95%	95%
Shareholders at year end	**17,912**	20,158	21,598	21,747	21,957
Number of employees at year end	**782**	801	809	802	791
Receipts (m^3/d)—Alberta	**141 176**	141 909	157 251	168 711	147 937
—Saskatchewan	**22 505**	19 878	24 119	24 375	25 420
—Manitoba	**1 712**	1 622	1 678	1 731	1 771
—Ontario	**651**	273	510	708	1 207
—United States	**25 446**	34 935	39 951	45 949	47 338
	191 490	198 617	223 509	241 474	223 673
Deliveries (m^3/d)					
Canada					
Canadian Production					
Prairie Provinces	**21 699**	21 693	22 270	22 309	19 388
Ontario	**78 497**	90 164	93 782	97 481	85 798
Quebec	**39 832**	33 736	43 838	43 230	40 018
	140 028	145 593	159 890	163 020	145 204
U.S. and offshore production					
Ontario	**6 373**	6 679	8 942	7 956	10 411
Quebec	**2 804**	3 337	5 180	5 816	3 663
	9 177	10 016	14 122	13 772	14 074
Total Canadian deliveries	**149 205**	155 609	174 012	176 792	159 278
United States					
Canadian production	**24 982**	18 501	23 300	32 675	31 408
U.S. and offshore production	**16 744**	24 946	25 618	31 982	33 466
Total U.S. deliveries	**41 726**	43 447	48 918	64 657	64 874
	190 931	199 056	222 930	241 449	224 152
Cubic metre kilometres (millions)	**159 739**	163 757	187 127	195 958	176 427
Average haul (kilometres)	**2 292**	2 254	2 293	2 224	2 156
Average transportation revenue (including Deficiency Agreement)					
—per cubic metre	**$5.25**	$4.26	$3.78	$3.64	$3.51
—per 100 cubic metre kilometres	**22.9¢**	18.9¢	16.5¢	16.4¢	16.3¢

Corporate directory

Directors

*ROBERT T. BROWN
President
Gulf Canada Products Company
Toronto

EDWARD H. CRAWFORD
President & Chief Executive Officer
The Canada Life Assurance Company
Toronto

*GLENN H CURTIS
President
Glenn H Curtis & Associates Limited, Calgary

*JEAN-CLAUDE DELORME
President & Chief Executive Officer
Teleglobe Canada, Montreal

W. DOUGLAS H. GARDINER
President
W. D. H. G. Financial Associates Ltd.
Vancouver

*ROBERT C. GIMLIN
President & Chief Executive Officer
Abitibi-Price Inc., Toronto

ROBERT K. HEULE
President & Chief Executive Officer
Interprovincial Pipe Line Limited, Toronto

C. EDWARD MEDLAND
Chairman & Chief Executive Officer
Wood Gundy Limited, Toronto

DONALD J. TAYLOR
President
Shell Canada Products Company, Toronto

GORDON H. THOMSON
President
Esso Petroleum Canada, Toronto

*Members of Audit Committee

Officers

ROBERT K. HEULE
President & Chief Executive Officer

GORDON A. COLE
Vice-President & General Manager

E. GORDON SHEASBY
Vice-President & General Counsel

LAWRENCE W. BLAINE
Vice-President & Treasurer

R. GLEN CAUGHEY
Vice-President-Projects

J. NEIL ST. JOHN, Corporate Secretary

JOHN R. CULHAM, Controller

DEREK P. TRUSWELL, Assistant Controller

FREDERICK B. NEWTON, Assistant Treasurer

Annual Meeting

2:30 p.m. Thursday, April 14, 1983 "Upper Canada" Room, Royal York Hotel, 100 Front Street West, Toronto.

The Notice of Meeting, Management Proxy Circular and Form of Proxy are being mailed with this report on March 15, 1983 to all shareholders of record.

Corporate Information

REGISTERED AND EXECUTIVE OFFICE
1 First Canadian Place
Toronto, Ontario M5X 1A9

OPERATING HEADQUARTERS
IPL Tower
10201 Jasper Avenue
Edmonton, Alberta T5J 3N7

STOCK TRANSFER AGENTS
The Royal Trust Company - Halifax, Montreal, Toronto, Winnipeg, Regina, Edmonton, Vancouver

Chemical Bank, New York

(Change of address should be sent to the closest branch of the Transfer Agents)

STOCK REGISTRARS
Montreal Trust Company - Halifax, Montreal, Toronto, Winnipeg, Regina, Edmonton, Vancouver

Bank of Montreal Trust Company, New York

DIVIDEND DISBURSING AGENT
The Royal Trust Company
P.O. Box 7500, Postal Station 'A'
Toronto, Ontario M5W 1P9

TRUSTEE AND REGISTRAR FOR FIRST MORTGAGE AND COLLATERAL TRUST BONDS
The Royal Trust Company
Toronto and Montreal

TRUSTEE AND REGISTRAR FOR SINKING FUND DEBENTURES
Montreal Trust Company
Montreal, Toronto, Winnipeg, Edmonton and Vancouver

STOCK LISTED
Toronto and Montreal Stock Exchanges

AUDITORS
Price Waterhouse
Edmonton, Alberta

Interprovincial Pipe Line Limited